

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-047
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-047

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

James M. Cochrane, President
Board of Directors
49th DAA, Lake County Fair
P.O. Box 70
Lakeport, California 95453-0070

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 49th District Agricultural Association (DAA), Lake County Fair, Lakeport, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 49th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

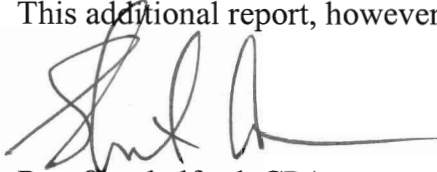
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 49th DAA, Lakeport County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 49th DAA, Lakeport County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-047 on the 49th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 49th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal line extending to the right.

For Ron Shackelford, CPA
Chief, Audit Office

April 25, 2008

**49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash	111-119	\$ 157,075	\$ 238,019
Accounts Receivable, Net	131-133	35,773	9,791
Construction in Progress	190	15,939	40,939
Land	191	240,662	240,662
Buildings and Improvements	192	1,954,888	1,554,238
Equipment, Net	193	5,813	8,719
TOTAL ASSETS		<u>2,410,150</u>	<u>2,092,368</u>
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable & Other Liabilities	211	897	554
Current Portion of Long-Term Debt	212.5	7,290	7,290
Payroll Liabilities	221-226	2,805	2,715
Deferred Income	228	71,608	69,108
Guaranteed Deposits	241	7,735	5,713
Compensated Absences Liability	245	27,393	19,665
Long Term Debt	250	298,936	41,917
Total Liabilities and Other Credits		<u>416,664</u>	<u>146,962</u>
Net Resources			
Reserve for Junior Livestock Auction	251	47,808	50,045
Net Resources - Operations	291	34,603	100,011
Net Resources - Capital Assets, less Related Debt	291.1	1,911,075	1,795,350
Total Net Resources Available		<u>1,993,486</u>	<u>1,945,406</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 2,410,150</u>	<u>\$ 2,092,368</u>

**49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Capital Project Reimbursement Funds	319	232,938	35,939
Other Capital Projects - F&E Funded	340	47,294	14,746
Admissions	410	142,198	130,844
Commercial Space	415	35,440	29,410
Carnival	421	71,306	72,948
Food Concessions	422	40,572	41,625
Exhibits Revenue	430	8,636	7,662
Horse Show Revenue	440	1,832	662
Attractions - Fairtime	460	51,472	43,641
Miscellaneous Fair	470	49,605	38,359
JLA Revenue	476	24,136	29,623
Non-Fair Revenue	480	96,558	74,225
Prior Year Adjustment	490	212	3,633
Other Revenue	495	7,541	8,837
Total Revenue		<u>959,740</u>	<u>682,154</u>
EXPENSES			
Administration	500	222,765	210,937
Maintenance and Operations	520	263,324	301,284
Publicity	540	18,611	21,960
Attendance	560	44,206	34,894
Miscellaneous Fair	570	6,593	5,313
JLA Expense	576	26,373	32,656
Premiums	580	21,045	16,908
Exhibits	630	41,089	35,331
Horse Show	640	3,707	2,853
Fairtime Attractions, Interim Attractions	660	86,714	50,000
Equipment	723	5,131	-
Prior Year Adjustments	800	239	61,566
Cash Over/Short from Ticket Sales	850	67	65
Depreciation Expense	900	124,502	115,362
Other Operating Expense	940	47,294	10,470
Total Expenses		<u>911,660</u>	<u>899,599</u>
RESOURCES			
Net Change - Income / (Loss)		48,080	(217,445)
Resources Available, January 1		1,945,406	2,162,851
Resources Available, December 31		<u>\$ 1,993,486</u>	<u>\$ 1,945,406</u>

**49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 48,080	\$ (217,445)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(25,982)	20,860
Increase (Decrease) in Accounts & Other Payables	344	(5,342)
Increase (Decrease) in Deferred Income	2,500	39,500
Increase (Decrease) in Miscellaneous Liabilities	90	1,944
Increase (Decrease) in Compensated Absence Liability	7,728	1,236
Increase (Decrease) in Guarantee Deposits	2,022	2,333
Total Adjustments	<u>(13,298)</u>	<u>60,532</u>
Net Cash Provided (Used) by Operating Activities	<u>34,782</u>	<u>(156,913)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction in Progress	25,000	(15,552)
(Increase) Decrease in Buildings & Improvements, Net	(400,651)	140,077
(Increase) Decrease in Equipment, Net	<u>2,906</u>	<u>9,325</u>
Net Cash Provided (Used) by Investing Activities	<u>(372,744)</u>	<u>133,851</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>257,018</u>	<u>(7,290)</u>
Net Cash Provided (Used) by Financing Activities	<u>257,018</u>	<u>(7,290)</u>
NET INCREASE (DECREASE) IN CASH	(80,944)	(30,352)
Cash at Beginning of Year	238,019	268,371
CASH AT END OF YEAR	<u><u>\$ 157,075</u></u>	<u><u>\$ 238,019</u></u>

**49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 49th District Agricultural Association (DAA) was formed in May 1937, for the purpose of sponsoring, managing, and conducting the Lake County Fair each year in Lakeport, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	(20,973)	(8,841)
Cash in Bank – Time Deposits	72,070	91,778
Cash in Bank – LAIF	<u>105,878</u>	<u>154,982</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 157,075</u></u>	 <u><u>\$ 238,019</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 41,360	\$ 9,798
Accounts Receivable - JLA	883	883
Allowance for Doubtful Accounts	<u>(6,470)</u>	<u>(890)</u>
 Accounts Receivable - Net	 <u><u>\$ 35,773</u></u>	 <u><u>\$ 9,791</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$3,647,877	\$3,125,631
Less: Accumulated Depreciation	<u>(1,692,989)</u>	<u>(1,571,393)</u>
Building & Improvements - Net	<u><u>\$1,954,888</u></u>	<u><u>\$1,554,238</u></u>

Equipment	\$ 101,751	\$ 101,751
Less: Accumulated Depreciation	(95,938)	(93,032)
Equipment - Net	<u>\$ 5,813</u>	<u>\$ 8,719</u>

NOTE 5 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 77,760
First Payment Date	March, 2003
Payment Amount	\$ 608
Duration of Loan	128 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/07	\$ 41,918
Current Portion at 12/31/07	\$ 7,290
Long-Term Portion at 12/31/07	\$ 34,628

In December 2007, CCA completed the Grandstand and Exhibit Building Photovoltaic Projects and the DAA recognized the loan term debt of \$264,308 based on the CCA closed project reports. The preliminary estimate by CCA of the amount financed was \$308,839; however, the final financing terms were not available since financing were still not finalized by CCA.

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled

in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 49th DAA Board of Directors
1	Chief Executive Officer, 49th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

MANAGEMENT REPORT #08-047

YEAR ENDED DECEMBER 31, 2007

49TH DISTRICT AGRICULTURAL ASSOCIATION
LAKE COUNTY FAIR
LAKEPORT, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Alicia Lauron, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-047

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. James M. Cochrane, President
Board of Directors
49th DAA, Lake County Fair
P.O. Box 70
Lakeport, California 95453-0070

In planning and performing our audit of the financial statements of the 49th District Agricultural Association (DAA), Lake County Fair, Lakeport, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Lake County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 49th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 49th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 49th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 49th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 49th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 49th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: overstatement of net resources for operations and accounting for fixed assets. We have provided two recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 49th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

OVERSTATEMENT OF NET RESOURCES FOR OPERATIONS

Our office noted the Fair did not correctly account for a major addition to fixed assets prior to closing the accounting period and preparing the year-end statement of operations (STOP). In December 2007, the California Construction Authority (CCA) completed two projects involving the installation of solar panels on the fairgrounds. Based on the closed project reports, the total cost of the two projects were as follows:

Photovoltaic Projects			
Cost Allocation	Grandstand	Exhibit Building	Grand Total
Fair portion	\$ 133,239	\$ 131,069	\$ 264,308
Utility Grant	93,378	139,560	232,938
Total Cost	\$ 226,617	\$ 270,629	\$ 497,246

The Fair entered into a long term loan agreement with CCA to finance the Fair portion of the total cost and recorded the amount of \$264,308 in Account #250, Long-term Debt, and mistakenly debited Account # 113, Cash – Operating, rather than a fixed asset account. In addition, the Fair recorded the full \$497,246 in Account #319, Capital Project Reimbursement, instead of only the utility grant portion of \$232,938. As a result, the fair's operating account and the revenue account were overstated by \$264,308 in the year-end financial statements. Although the Fair made a subsequent journal entry in an attempt to correct the error, the journal entry was not posted in the year-ending December 31, 2007, thus the accounting error resulted in overall net resources being overstated in the year-ending financial reports.

Recommendation

- Prior to closing the accounting period and preparing the year-ending financial reports, the Fair should ensure all material financial transactions are correctly accounted for in the general ledger and year-end financial statements by reviewing all asset and liability amounts in the general ledger for appropriateness.*

ACCOUNTING FOR FIXED ASSETS

During our audit of the Fair's fixed asset records, our office noted a difference of \$12,292 between the Department of General Service (DGS) Structure Report for real property (land) and the balance recorded in Account # 191, Land, in the general ledger. Account #191,

Management Report #08-047

Lakeport, California

Land, reported a balance of \$240,662, while the DGS Structure Report reported a balance for land at \$228,370. The DGS Structure Report is prepared and submitted on a yearly basis to the DGS Real Estate Services Division. The Fair did not maintain supporting documentation for us to determine whether the property ledger or the DGS Structure Report contain the correct amount. This is a prior year audit finding.

Recommendation

2. *The Fair should make it a priority to resolve the differences between the balances reported for land as recorded in the Fair general ledger and the amount reflected on the DGS Structure Report for real property.*

NON-REPORTABLE CONDITIONS

CAL-CARD EXPENDITURES

The Fair charged travel related expenditures such as food and lodging during the Western Fairs Association Conference (WFA) with a State issued CAL-Card. According to the State Administrative Manual (SAM) Management Memo (MM) #04-06 dated January 26, 2005, the CAL-Card cannot be used for items such as State travel-related expenses. This includes travel-related per-diem expenses normally reimbursed to State employees on a Travel Expense Claim (TEC). Travel is defined as airline tickets, ground transportation, vehicle rentals, restaurants (meals) and lodging.

Furthermore, cardholders did not always sign each CAL-Card statement acknowledging responsibility for expenditures before processing for payment. The CAL-Card manual requires the Cardholder to sign the certification statement on the bottom of the last page of the CAL-card statement to ensure that transactions are correctly billed.

Recommendations

The Fair should comply with SAM (MM) #04-06 dated January 26, 2005, "Cal-Card: Purchasing Card Program" documenting Cal-Card purchasing limitations. Furthermore, travel related per-diem expenses should be reimbursed on a travel expense claim submitted by the employee.

The Fair should follow the CAL-Card Program guidelines to ensure checks, balances and audit controls of all CAL-Card transactions. This process will mitigate the risk of paying incorrectly billed transactions.

INDEPENDENT CONTRACTORS

A review of the Standard 210 Agreements revealed that the Fair did not complete the required Employment Development Department (EDD) DE 542 form for independent contractors. The Fair is required to report to EDD within 20 days of paying or contracting for \$600 or more with an independent contractor in any calendar year by submitting Form DE 542. According to EDD, any business or government entity that is required to file a federal Form 1099-MISC for services received from an independent contractor is required to report specific independent contractor information to EDD. This information is used by EDD to locate parents who are delinquent in their child support obligations.

Recommendation

The Fair should comply with the State Senate Bill 542 that requires entities to report specified information to EDD on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



CDFA Audit Office
Ron Shackelford, Chief
1220 N Street
Suite A-454
Sacramento, CA 95814

Dear Mr. Shackelford:

The 49th DAA is in receipt of your audit findings for the recently concluded audit of the 2007 fiscal year.

With regard to the reportable conditions, the DAA concurs with the finding and recommendation about the reporting of net resources. However, we feel it is important to note that the error was identified by the DAA and then brought to the attention of the auditor. We also feel it is important to note that the DAA staff followed the accounting procedures manual in the initial recording of the capital project, and then concluded on their own that the manual fails to provide direction for the proper accounting for capital projects with loans against them. In fact, before making the original entries, our Business Assistant requested direction from staff at both Fairs and Expositions and the CDFA Audit Office.

As in 2007, the DAA still concurs with the findings for fixed assets, specifically land. However, the DAA has conducted research within its own files, and has hired a title research specialist to research the property acquisitions through the records of Lake County, as recommended by your office. The result is the same; there is not adequate documentation to support that either number is the "correct" number. The DAA will be happy to accept any recommendations from your office as to how to correct the differences between the DGS Structure Report for real property and the DAA's general ledger, but further research is not an acceptable solution.

Thank you for the work on the 2007 audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Persons".

Richard Persons
Chief Executive Officer

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry McQueen".

Jerry McQueen
President

Cc: Fairs & Expositions

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 49th DAA, Lake County Fair, for their review and response. The Lake County Fair response addressed the findings in the report and stated their plans for implementing each recommendation. However, we have reviewed their response and in order to provide clarity and perspective, we have provided the following comments for reportable recommendation #2. The comments are as follows:

Recommendation #2

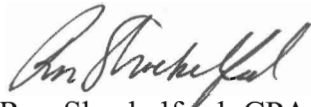
The Fair states in their response that they concurred with the findings for fixed assets, specifically land. The Fair had conducted research within its own file and has hired a title research specialist to research the property acquisitions through the records of Lake County. However, the result is the same; there is not adequate documentation to support that either number is the correct number.

Based on our knowledge, the balances reflected in the Department of General Services (DGS) Structure Report were derived from the amounts reported by the Fair over several years. Therefore, the records should agree. Since the Fair has been unsuccessful in determining where the difference occurred, our office will attempt to research this issue with DGS so that this issue may be resolved.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 14, 2008 and April 25, 2008. My staff met with management on April 25, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

April 25, 2008

REPORT DISTRIBUTION

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